



Economics Group

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A Sign of the Times: Real Sales at Used Merchandise Stores Surge

Although it is a very small sector of retail trade sales (about 1.6 percent of total retail trade sales today) the used-merchandise sector has shown strong growth, especially since the recovery from the Great Recession.

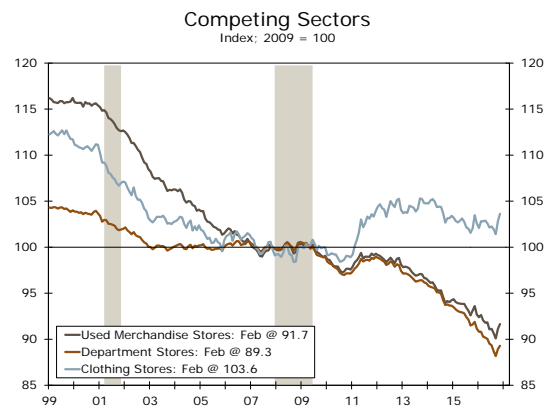
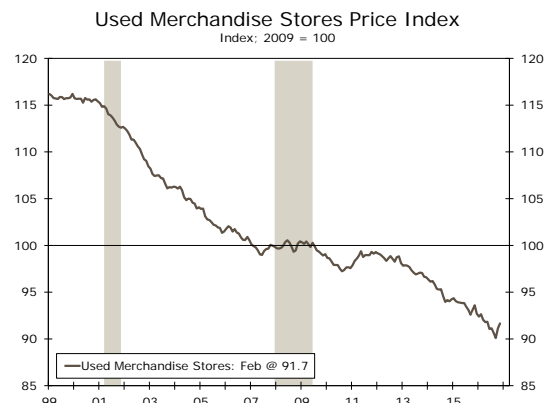
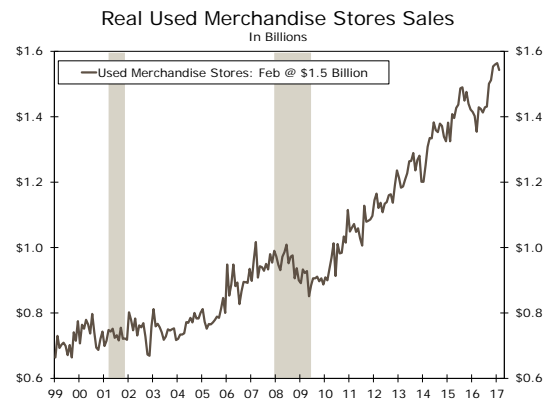
Growth Strengthened After the Great Recession

The severity of the Great Recession and the slow recovery afterward in terms of employment, wages and salaries, the housing market, productivity, etc., has had an enormous impact on the behavior of consumers in the United States. Of the sectors, one that has reflected this economic weakness since the recovery from the Great Recession has been the used merchandise store sales sector of retail trade. That is, some segments of the American consumer sector have been increasingly buying used goods from the used merchandise store distribution channel, probably a reflection of the new economic reality for many low income individuals. Granted, this sector is still miniscule within the retail trade sector, representing just 1.6 percent of total retail trade sales today (only 0.3 percent of retail sales and food services), compared to just 1.0 percent back in 1999 (0.2 percent of retail sales and food services). However, growth has been very strong, especially since the end of the Great Recession.

The sector started to show some momentum before the Great Recession in 2004 after remaining almost flat since 1999 (top chart). However, the Great Recession stopped this momentum short and the sector receded somewhat during that period. Since the recovery from the Great Recession the sector's sales have taken off, and while it is still a small point in the overall retail trade sector, it is attracting notice.

Pricing Strategy Seems to Follow Competitors' Strategies

From looking at the price deflator for the sector (middle chart), it is clear that some of the momentum for this sector's sales may be related to the pricing strategy followed by the used merchandise store sector. This sector's pricing strategy seems to have started to change early this century, when prices started to drop at a relatively fast pace. Then, this lower price strategy accelerated starting in 2004, and, after a relatively stable period for pricing between 2007 and the end of the Great Recession, prices continued its downward trend. An econometric analysis between price and quantity sold by this sector yields no relationship between these two variables. The explanation is that this sector's month-over-month sales are highly volatile, while prices are relatively stable. However, an econometric analysis of the price of used merchandise goods regressed on the price of department store and clothing store indicates a strong relationship between the prices charged by these sectors versus those charged by the used merchandise store retail sector (this variability can be observed in the bottom chart). That is, it is clear that if the used merchandise sector of retail wants to sell its goods it has to follow the price strategy of new clothing prices and department store prices, perhaps because this is where the goods they sell originally come from.



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